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Classified By: Econcous Oliver John for reasons 1.4 (b & d).

¶1. (C) Summary: On January 9 Kuwait Central Bank Governor Sheikh Salem Abdulaziz Al Sabah told Ambassador that his priority was to ensure the stability of Kuwait's banking system. Although he acknowledged the challenges facing Kuwait's 95 investment companies, he dismissed any systemic impact from the potential failure of the "eight to ten" that needed help. Clearly distinguishing (albeit somewhat disingenuously) between investment banks (&we have none8) and &investment companies,8 he argued that company shareholders would be responsible for deciding whether to recapitalize the companies, but did not rule out GoK assistance to deserving companies. Sheikh Salem explained that the December GCC decision on currency union did not mean that the GCC states would have a common currency by end-2009, but that they would set up a monetary board to coordinate policy by 2009. He dismissed as impossible the suggestion that the GCC could create a common currency by the end of the year. The Governor refused to be drawn into a discussion on the GoK decision to cancel the Dow deal, though he is clearly concerned about the depth and length of the global economic downturn and the need to preserve Kuwaiti assets. End summary.

Protect the Banking System

¶2. (C) Sheikh Salem expressed his view that 2009 would be an even more difficult year for the world, both politically and economically than was 2008. He stressed that the Central Bank's priority was to protect the country's banking system, which he described as stable, though he was unwilling to be drawn on details. Ambassador, citing Global Investment House's default on a $200 million structured loan payment, asked whether he was concerned about the state of Kuwait's 95 investment companies. Sheikh Salem acknowledged that there were problems with the investment companies. In contrast to many observers in the financial community, however, he said that only around 8-10 of the companies would need help and that there would be no systemic impact if they failed.

¶3. (C) Sheikh Salem insisted that the first responsibility for rescuing the Investment Companies lay with the company shareholders. If they were unwilling to risk additional capital, it should not be the government's responsibility to bail them out. If a company were insolvent, it should fail. If illiquid, it would be up to the shareholders to work with creditors to reschedule payments. Since bankruptcy procedures took an unreasonably long time in Kuwait, an average of 7-8 years, it could be advantageous for shareholders and creditors to work out their own arrangements. He speculated that the GoK would assist worthwhile companies with liquidity problems, as long as the company's shareholders were willing to take the lead. He cautioned that using public funds would require legislation, which the government would not push until a new cabinet was formed. When Ambassador asked whether Global CEO's reported multi-million Kuwaiti Dinar compensation package would be considered in any bail-out discussion, the Governor categorically stated that it would.

GCC Currency Union) A First Step

¶4. (SBU) Sheikh Salem explained that the recent GCC decision on monetary union was a necessary first step, but denied that there would be a common currency by end 2009. He said that the GCC had decided to create a monetary board by end 2009. He added that there was still a debate on who would host the monetary board, with both Qatar and Bahrain offering, but that the even bigger question would be who would host the Central Bank. This issue, he added, was raised but not discussed at the GCC meeting. Sheikh Salem emphasized that the GCC members needed to be both transparent and realistic in their plans for monetary union. For its part, Kuwait would need to amend several laws, which would raise its own unique parliamentary challenges. (Note: Ministry of Finance U/S Khalifa Hamada told Econcouns that only Kuwait, Qatar, and Saudi Arabia had approved the common currency initiative in December. Both Bahrain and the UAE had expressed reservations and Oman continued to say that it would not join in the near term. Hamada said that Kuwait would join with the majority, but cautioned that the articles of agreement stated that 5 GCC countries had to join for the

currency union to come into effect. End Note.)

Dow

¶5. (C) Ambassador expressed her deep disappointment in the collapse of the K-Dow joint venture, noting the need for Kuwait and the U.S. to expand their partnership beyond its strong political/military foundations and for Kuwait, in particular, to develop and diversify its single commodity economy. The K-Dow package had included an R&D center to be built in Kuwait, which would have been an extremely positive development. Sheikh Salem agreed, but when Ambassador asked whether the Governor, who sits on the Supreme Petroleum Council, could shed light on the government's decision to reverse itself on Dow, he refused to be drawn in, saying simply "this was a complicated issue that doesn't leave room for black or white decisions." (Note: KPC General Council Sheikh Nawaf Al-Sabah (protect) told Econoff that he suspected that the Central Bank Governor expressed his view that the global economic crisis would be lengthy during the cabinet meeting, and that this had a significant impact on the ultimate decision. End Note.)

Comment

¶6. (C) Although the Governor heads the GoK's committee to deal with the impact of the global financial crisis, he clearly indicated his belief that this would be best accomplished by ensuring the stability of the country's banking sector. It is also the area that is under his direct control. He was clearly more reluctant to commit public funds to stock market or investment company bail-outs, noting repeatedly that the companies were "investment companies not investment banks." This reluctance mirrors what we have heard from other committee members. As previously noted, parliamentary objections to any "misuse" of public funds and the sharp drop in Kuwait's oil and investment revenue likely play a role in this reluctance (ref a). Based on the Governor's remarks, however, it also appears as if he believes that the GoK will need to husband its assets to meet future economic challenges and that he is also reluctant to "throw good money after bad." End Comment

JONES